

London Bus Services Limited

Annual Report and Financial Statements Year ended 31 March 2013



Registered Office
Windsor House
42-50 Victoria Street
London
SW1H 0TL

Registered in England and Wales
Number 03914787

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Directors' Report and Business Review

Introduction

The directors present their annual report on the affairs of London Bus Services Limited (the "Company") together with the audited financial statements for the year ended 31 March 2013

Principal Activity

The principal activity of the Company is to provide and secure a network of public bus passenger transport services, and supporting infrastructure, in Greater London. The bus services are operated by private operators which work under contract. Revenue from passenger ticket fares on bus transport services is retained by the Company.

The Company does not anticipate any changes in its principal activities in the foreseeable future.

Financial and Business Review

The result for the year was £nil (2011/12 £nil)

The total number of passenger journeys for the year was 2.335 billion (2011/12 2.344 billion). The decrease between financial years is mainly a result of additional bank holidays this year and the leap year in 2011/12. Adjusting for these shows an ongoing increase in passenger demand. Bus network income of £1,418 million for the year was 6% higher than the previous year's total of £1,335 million.

Bus services remained under regular review, taking account of changing travel needs and operating conditions. Alterations included routings, frequencies, vehicle types and schedules. Additionally there was a major programme to modify services in support of the 2012 Games, with additional capacity for venues and changes to accommodate road network alterations.

The programme to upgrade and expand the Countdown real time passenger information system at bus stops was completed in July 2012 with a total of 2,500 new signs installed. This follows the successful introduction of fixed and mobile web and SMS channels for supply of this information in 2011.

Payments on-bus by Contactless Payment Cards was introduced in December 2012. Over one million journeys were paid for by this method by the end of the year.

The Company placed an order for 600 New Bus for London (NBfL) production vehicles with Wrightbus, of Northern Ireland, at the end of 2012/13. The first route conversion was announced by the Mayor of London in January 2013 as the 24 which runs from Hampstead Heath, via Camden, Trafalgar Square, and Victoria, to Pimlico. Route 24, which is a 24-hour route, will start using 27 of the new buses from June 2013.

The Company is on course to increase the number of hybrids to 1,600 by 2016 after raising the number in the London fleet to 421 by the end of March 2013. The balance will be supported by the introduction of 600 NBfLs and 600 non-NBfL hybrids over the next few years, and bids for the Department for Transport's Green Bus Fund.

Directors' Report and Business Review

Directors

The directors, who served throughout the year and up to the date of this Report, were as follows

L Daniels
D Hendry
C Kavanagh
M Weston

None of the directors had any beneficial interest in the shares of the Company or any other company within the Transport for London Group ("TfL Group")

The Company maintains directors' and officers' liability insurance

Risk Management

The Company identifies, manages and mitigates significant areas of business risk as part of the normal course of business. The London Bus Services Limited Risk Management framework is set up to complement this basic management by the business and to provide a framework for the organisation to ensure that business risks are appropriately identified, regularly reviewed and progress tracked on the management of key business risks.

The risks that the Company is exposed to include safety, terrorism, employee relations, contractual claims, reputation and financial. All business risks are recorded on a risk register. For each risk, an owner has been identified who is responsible for implementing the mitigation strategy that has been identified.

As part of its overall corporate governance brief within the TfL Group, the TfL Audit and Assurance Committee has specific responsibility for assuring the TfL Board that effective risk management arrangements are in place. The risk management process is subject to annual review by the TfL's Director of Internal Audit.

Employee Involvement and Communications

The Company has an employee communications strategy and plan in place to ensure that employees are provided with information on matters of concern to them, ensure that employees and union representatives are consulted on matters that may affect them, encourage employee engagement in the Company's strategy and performance, and enable employees to be aware of financial and economic factors that affect the Company's performance.

Consultation on issues affecting the workforce also takes place at regular intervals with representatives from the Company and trade unions.

Employee Practice

The Company values the diversity which exists in our city and aspires to this being reflected in our workforce. This is reflected not only in our recruitment and selection processes, but also throughout the employment cycle of every member of staff. The Company is committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection, training, career development, flexible working arrangements and promotion and performance appraisal. The Company is committed to comply with our legal responsibilities under the Disability Discrimination Act to make "reasonable adjustments" to a person's working conditions wherever possible. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and to provide specialised training where this is appropriate. Employee numbers are disclosed in the notes to the accounts.

Directors' Report and Business Review

Health, Safety and Environment

The Company is committed to continuous improvement in health and safety performance. In addition to safety management as part of the normal business activity, safety objectives are identified and regularly reviewed to form short and longer term plans as a basis to improve safety and security for customers, employees and suppliers. In conjunction with the Community, Safety, Enforcement and Policing Directorate of Transport for London ("TfL"), the directors of the Company liaise closely with the Metropolitan Police Safer Transport Command Unit who provide dedicated policing for the bus network.

Charitable and Political Donations

No donations were made to charities during the year (£nil in 2011/12). No political donations were made during the year (£nil in 2011/12).

Dividends

No interim dividends were paid during the year (2011/12 £nil) and the directors do not recommend the payment of a final dividend (2011/12 £nil).

Corporate Governance

London Bus Services Limited is a wholly owned subsidiary of Transport Trading Limited ("TTL"), which in turn is controlled by Transport for London, which appoints all the directors of the Company. The Board of London Bus Services Limited, through its management structure, implements the corporate aims and controls laid down by Transport for London. Particulars in respect of corporate governance can be found in Transport for London's Annual Governance Statement.

Disclosure of Information to Auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' Report and Business Review

Auditor

Pursuant to shareholders' resolution, the Company is not obliged to reappoint its auditor annually and KPMG LLP will therefore continue in office

Signed on behalf of the Board by

A handwritten signature in black ink, appearing to be 'H. Carter', written over a horizontal line.

H. Carter

Company Secretary

26 June 2013

Statement of Directors' Responsibilities

In Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with Adopted IFRSs, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report

To the Members of London Bus Services Limited

We have audited the financial statements of London Bus Services Limited for the year ended 31 March 2013 set out on pages 8 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its result for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report

To the Members of London Bus Services Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Robert Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

15 JULY 2013

Income Statement

For the year ended 31 March

		2013	2012
	Note	£m	£m
Revenue	1	1,465.3	1,379.3
Net operating costs		(1,962.6)	(1,897.7)
Operating loss	3	(497.3)	(518.4)
Grant income	2	500.4	518.4
Other gains and losses	4	2.4	5.2
Total profit from operations		5.5	5.2
Financial expenses	7	(5.7)	(5.7)
Loss before taxation		(0.2)	(0.5)
Income tax credit	8	0.2	0.5
Result for the year attributable to the owners of the Company		-	-

Statement of Comprehensive Income

For the year ended 31 March

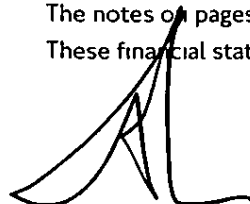
	2013	2012
	£m	£m
Result for the year	-	-
Other comprehensive income and expenditure	-	-
Total comprehensive income and expenditure for the year attributable to owners of the Company	-	-

Statement of Financial Position

		31 March 2013	31 March 2012
	Note	£m	£m
Non-current assets			
Intangible assets	9	7.6	9.0
Property, plant and equipment	10	233.6	258.2
Investment property	11	8.0	6.0
Investments	12	-	-
Trade and other receivables	14	-	0.2
		<u>249.2</u>	<u>273.4</u>
Current assets			
Inventories	13	0.1	0.1
Trade and other receivables	14	86.8	79.4
Cash and cash equivalents	15	-	0.5
		<u>86.9</u>	<u>80.0</u>
Current liabilities			
Trade and other payables	16	(74.7)	(82.4)
Provisions	18	(0.1)	(3.8)
		<u>(74.8)</u>	<u>(86.2)</u>
Non-current liabilities			
Trade and other payables	16	(4.5)	(4.3)
Borrowings	17	(128.5)	(128.5)
Provisions	18	(0.1)	(0.2)
Deferred grants	19	(127.2)	(133.2)
		<u>(260.3)</u>	<u>(266.2)</u>
Net assets		<u>1.0</u>	<u>1.0</u>
Equity			
Share capital	21	1.0	1.0
Retained earnings		-	-
Total equity attributable to the owners of the Company		<u>1.0</u>	<u>1.0</u>

The notes on pages 12 to 40 form part of these financial statements

These financial statements were approved by the Board on 26 June 2013 and signed on its behalf by



L. Daniels

Director

Company Registration Number 03914787

Statement of Changes in Equity

	Called up share capital	Retained earnings	Total
	£m	£m	£m
At 1 April 2011	1.0	-	1.0
Result for the year	-	-	-
Other comprehensive income and expenditure	-	-	-
At 31 March 2012	1.0	-	1.0
Result for the year	-	-	-
Other comprehensive income and expenditure	-	-	-
At 31 March 2013	1.0	-	1.0

Statement of Cash Flows

For the year ended 31 March

		2013	2012
	Note	£m	£m
Cash generated from operating activities			
Result for the year		-	-
<i>Adjustments for</i>			
Amortisation of intangible assets	9	3.2	1.5
Depreciation of property, plant and equipment	10	37.8	25.9
Gain on disposal of property, plant and equipment	4	(0.4)	(0.6)
Change in fair value of investment properties	4	(2.0)	(4.6)
Financial expenses	7	5.7	5.7
Reversal of tax credit	8	(0.2)	(0.5)
Release of deferred grant to the Income Statement	19	(20.0)	(13.1)
Cashflow from operating activities before movements in working capital		24.1	14.3
(Increase)/decrease in trade and other receivables		(7.2)	3.8
Decrease in trade and other payables		(8.6)	(45.1)
(Decrease)/increase in provisions		(3.8)	1.5
Cash generated from/(utilised by) operations		4.5	(25.5)
Taxation received		0.2	0.5
Net cash generated from/(utilised by) operating activities		4.7	(25.0)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangibles		0.4	0.6
Acquisition of intangible assets		(1.9)	(0.8)
Acquisition of property, plant and equipment		(12.0)	(19.2)
Capital grants received		14.0	50.3
Net cash generated from investing activities		0.5	30.9
Cash flows from financing activities			
Interest paid		(5.7)	(5.7)
Net cash utilised by financing activities		(5.7)	(5.7)
 (Decrease)/increase in net cash during the year		(0.5)	0.2
Net cash and cash equivalents at the start of the year		0.5	0.3
Net cash and cash equivalents at the end of the year		-	0.5

Accounting Policies

a) Reporting entity

London Bus Services Limited (the "Company") is a company domiciled in the United Kingdom. The Company's registration number is 03914787. The address of the Company's registered office is 42-50 Victoria Street, London, SW1H 0TL.

b) Statement of accounting policies

This section explains the Company's main accounting policies, which, unless otherwise stated, have been applied to all periods presented in these financial statements.

c) Basis of preparation

Statement of Compliance

These financial statements have been prepared in accordance with Adopted IFRSs.

Basis of measurement

These financial statements have been prepared in accordance with Adopted IFRSs. The accounts are made up to 31 March and have been prepared under the accruals concept and in accordance with the historical cost accounting convention, modified by the revaluation of certain categories of non-current asset.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Company's financial performance.

d) Uses of estimates and judgements

The preparation of financial statements in compliance with Adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below.

Leases

In assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the Company. Given that finance leases are recognised as liabilities, and operating leases are not, this can have a significant effect on the reported financial position of the Company.

Classification of investment property

IAS 40 Investment properties ("IAS 40") requires that properties are classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. The Company owns a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. To comply with IAS 40, judgement needs to be exercised in determining whether these properties should be classified as investment properties. As investment properties are valued at fair value with movements in the fair value being recorded in the income statement this could have a significant effect on the financial performance of the Company.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value as calculated by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Gains and losses from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Accounting Policies

Provisions

Estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the Company. This can be very complex, especially when there is a wide range of possible outcomes.

Useful economic life of property, plant and equipment

When determining the useful economic life of property, plant and equipment, judgement needs to be exercised in estimating the length of times the assets will be operational.

e) New standards and interpretations not yet adopted

Standards and interpretations issued by the International Accounting Standards Board ("IASB") are only applicable if endorsed by the EU. The following new amendments have been applied for the first time in these financial statements:

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets. The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets.
- Amendments to IAS 12 Deferred Tax – Recovery of Underlying assets. The amendments to IAS 12 provide an exception for investment property to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically the amendments establish a rebuttable presumption that the carrying amount of investment property will be recovered entirely through sale.

There has been no material impact from the application of the above amendments on these financial statements.

The following revisions to IFRS will be applicable in future periods, subject to endorsement where applicable. These have been issued but have not been applied by the Company in these financial statements:

- IFRS 9 Financial Instruments (mandatory for year commencing on or after 1 January 2015)
- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (mandatory for year commencing on or after 1 January 2014)
- IFRS 10 Consolidated Financial Statements (mandatory for year commencing on or after 1 January 2013)
- IFRS 11 Joint Arrangements (mandatory for year commencing on or after 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2013)
- IFRS 13 Fair Value Measurement (mandatory for year commencing on or after 1 January 2013)
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (mandatory for year commencing on or after 1 July 2012)
- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (mandatory for year commencing on or after 1 January 2013)
- IAS 19 (as revised in 2011) Employee Benefits (mandatory for year commencing on or after 1 January 2013)
- IAS 27 (as revised in 2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2013)
- IAS 28 (as revised in 2011) Investments in Associates and other Joint Ventures (mandatory for year commencing on or after 1 January 2013)
- Annual Improvements to IFRSs 2009-2011 Cycle (mandatory for year commencing on or after 1 January 2013)

Accounting Policies

The Company does not consider that these or any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements

f) Going concern

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons

The Company is dependent on funds provided to it by TfL, its ultimate parent, in order to ensure working capital requirements are satisfied. TfL has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make such funds available to the Company

The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Based on this undertaking, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis

g) Revenue

Traffic revenue arises from activities such as the sale of tickets, revenue in respect of free and reduced fare travel

Other revenue arises from commercial advertising receipts and rental income

Revenue is measured after deductions for value added tax (where applicable)

Fare revenue

This relates to passenger fares income from bus transport in the Greater London area. Revenue from annual or periodic tickets and travel cards is recognised in the Income Statement on a straight line basis over the period of validity of the ticket or travel card. Revenue received in advance not yet recognised in the Income Statement is recorded in the Statement of Financial Position and held within current liabilities under receipts in advance. Oyster pay as you go revenue is recognised on usage and one day travel cards and single tickets are recognised on the day of purchase

Revenue in respect of free and reduced fare travel for the elderly and disabled

Revenue from the London Borough Councils and County Authorities in respect of free and reduced fare travel for the elderly and disabled is recognised as revenue in the financial year in which the services are rendered

Other traffic revenue

This comprises income from sponsorship of bus routes and out of county. Sponsorship is recognised on an accruals basis over the term of the agreement. Out of county is recognised in the financial year in which the travel is completed

Commercial advertising

Commercial advertising revenue is recognised on an accruals basis in accordance with the detail of the relevant agreements

Rental income

Rental income is recognised on a straight line basis over the term of the relevant lease

Accounting Policies

Other revenue

This comprises income from third party contributors and fellow Group undertakings. Both types of income are recognised on an accruals basis and third party contributions are also recognised in accordance with the detail of the relevant agreements.

h) Grants and other funding

Grants and other contributions received towards the cost of capital expenditure are recorded as deferred income in the Statement of Financial Position and released to the Income Statement over the estimated useful economic life of the asset to which the grant relates.

Revenue grants received for the funding of operations are credited to the Income Statement on a systematic basis to match costs.

i) Employee benefits

Defined contribution scheme

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Income Statement in the periods during which services are rendered by employees.

Defined benefit plans – multi-employer exemption

The majority of employees are members of a defined benefit scheme to which the Company contributes. However, it is not possible for the Company to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. For this reason, as permitted by the multi-employer exemption in IAS 19 Employee benefits ("IAS 19"), the scheme is accounted for as a defined contribution scheme and the Company's contributions are charged to the Income Statement as incurred.

Other employee benefits

Other short and long term employee benefits, including holiday pay and long service leave, are measured on an undiscounted basis and are recognised as an expense over the period in which they accrue.

j) Leases (the Company as lessee)

Leased assets

All leases are operating leases and the leased assets are not recognised in the Company's Statement of Financial Position.

Lease payments

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

k) Leases (the Company as lessor)

Rental income from operating leases and initial direct costs are recognised on a straight line basis over the term of the relevant lease.

Accounting Policies

l) Financial expenses

Financing costs comprise the interest expense on borrowings accrued using the effective interest rate method. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use. In accordance with IFRS 1 and IAS 23 Borrowing costs ("IAS 23"), the Company has taken the option not to capitalise borrowing costs on assets where expenditure had been incurred and where activities necessary to construct the asset had commenced prior to the date of transition to IFRS.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Income Statement using the effective interest rate method.

m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Income Statement except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same tax authority and the Company has the right of set off.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n) Property, plant and equipment

Recognition and measurement

Infrastructure consists of land, bus stations, garages, bus shelters, properties attached to infrastructure which are not separable from infrastructure, and properties attached to infrastructure which are used to facilitate the service provision and are limited in use by operational constraints. Some of these properties generate revenues which are considered to be incidental to the Company's activities.

Infrastructure, plant and equipment and rolling stock are measured at cost less accumulated depreciation and accumulated impairment losses.

Assets in the course of construction are measured at cost less accumulated impairment losses.

Accounting Policies

The cost of certain items of property, plant and equipment was determined by reference to a previous GAAP valuation. The Company elected to apply the optional exemption allowed under IFRS 1 to use this previous valuation as deemed cost at 1 April 2009, the date of transition.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the Income Statement as incurred.

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Infrastructure	10-30 years
Other property	20-50 years
Plant and equipment	3-40 years

Assets under construction and freehold land are not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds of disposal with the carrying amount, and are recognised net within other gains and losses in the Income Statement.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are ready for their intended use. Qualifying assets are defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A substantial period of time has been interpreted as being one year.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Accounting Policies

p) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with any changes therein recognised in the Income Statement in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

Properties are valued by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property is included in the Income Statement in the period in which the property is derecognised. The gain or loss on disposal of the property is calculated as the difference between the proceeds on disposal and the carrying amount of the asset.

q) Inventories

Equipment and material held for use in a capital programme are accounted for as inventory until they are issued to the project, at which stage they become part of assets under construction.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

r) Impairment

Non-financial assets

At each reporting date, the Company reviews the carrying amount of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Impairment occurs when an asset would otherwise be recorded in the financial statements at an amount more than is recoverable from its use or sale.

Impairment losses are recognised in the Income Statement.

s) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the consideration required to settle the obligation at the Statement of Financial Position date, and are discounted to present value where the effect is material.

Accounting Policies

t) Financial instruments

Financial assets within the scope of IAS 39 Financial Instruments Recognition and Measurement ("IAS 39") are classified as

- financial assets at fair value through the Income Statement,
- loans and receivables, or
- available for sale financial assets

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the Income Statement or financial liabilities measured at amortised cost

The Company determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transactional costs. The exception to this is for assets and liabilities measured at fair value, where transaction costs are immediately expensed. The subsequent measurement of financial instruments depends on their classification as follows

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the Income Statement' or available for sale. Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Company will not be able to recover all amounts due, through a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Income Statement.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturity of less than or equal to three months.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Interest bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Accounting Policies

Fair value measurement of financial instruments

IFRS 7 requires that financial instruments that are measured in the statement of financial position at fair value are measured by level of the following fair value measurement hierarchy

Level 1 Quoted prices (unadjusted) in active markets for identical assets

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2 Inputs other than quoted prices included that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

The fair value of financial instruments that are not traded in an active market (for example over the counter derivatives or infrequently traded listed investments) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Specific valuation techniques, such as discounted cash flow analysis, are used to determine fair value of the remaining financial instruments.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant assets are tested for impairment on an individual basis. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

All impairment losses are recognised in the Income Statement.

Notes to the Financial Statements

1 Revenue

For the year ended 31 March

	2013	2013	2012	2012
	£m	%	£m	%
Traffic revenue				
Fares collected	1,197.2	81.7%	1,127.5	81.7%
Revenue in respect of free travel for the elderly and disabled	220.7	15.1%	207.8	15.1%
Other traffic revenue	6.0	0.4%	3.3	0.2%
	<u>1,423.9</u>	<u>97.2%</u>	<u>1,338.6</u>	<u>97.0%</u>
Other revenue				
Intercompany	11.5	0.8%	11.9	0.9%
Rents receivable	4.3	0.3%	4.3	0.3%
Commercial advertising	17.6	1.2%	17.0	1.2%
Other revenue	8.0	0.5%	7.5	0.5%
	<u>41.4</u>	<u>2.8%</u>	<u>40.7</u>	<u>3.0%</u>
Total revenue	<u>1,465.3</u>	<u>100.0%</u>	<u>1,379.3</u>	<u>100.0%</u>

2 Grant income receivable

For the year ended 31 March

	Note	2013	2012
		£m	£m
Revenue grants receivable			
Grant from Transport for London to fund operations		<u>500.4</u>	<u>518.4</u>
		<u>500.4</u>	<u>518.4</u>
Capital grants receivable			
Capital grants from Transport for London taken to deferred grants	19	13.1	49.6
Other capital grants taken to deferred grants	19	0.9	0.7
		<u>14.0</u>	<u>50.3</u>
Total grants receivable		<u>514.4</u>	<u>568.7</u>

Notes to the Financial Statements

3 Operating loss

For the year ended 31 March

Note	2013	2012
	£m	£m

Operating loss is stated after charging/(crediting):

Capital items

Depreciation of property, plant and equipment - owned	10	37.8	25.9
Amortisation of intangible assets	9	3.2	1.5
Release of deferred capital grants to the Income Statement	19	(20.0)	(13.1)

Other operating costs

Employee costs	5	35.2	37.2
Payments under operating leases		2.2	1.9

For the year ended 31 March

2013	2012
£000	£000

Auditors' remuneration

Fees for the audit of these financial statements	55	55
Fees for non-audit services	-	5

4 Other gains and losses

For the year ended 31 March

2013	2012
£m	£m

Change in fair value of investment property	2.0	4.6
Net gain on disposal of property, plant and equipment	0.4	0.6
	2.4	5.2

Notes to the Financial Statements

5 Employee costs

For the year ended 31 March

	2013	2012
	Number	Number
Average number of employees (including directors) in the year	<u>597</u>	<u>626</u>
	£m	£m
Wages and salaries	26.7	28.3
Social security	2.5	2.5
Defined contribution pension costs	<u>6.0</u>	<u>6.4</u>
	<u>35.2</u>	<u>37.2</u>

6 Directors' emoluments

For the year ended 31 March

	2013	2012
	Number	Number
Number of directors who received remuneration from the Company during the year	2	2
The Company made contributions to a defined contribution scheme on behalf of the following number of directors	1	2
Number of directors who were members of a defined benefit pension scheme	<u>2</u>	<u>2</u>

The directors received the following remuneration

For the year ended 31 March

	2013	2012
	£	£
Salaries, fees and benefits in kind	332,405	311,323
Defined contribution pension costs	<u>5,503</u>	<u>24,690</u>
	<u>337,908</u>	<u>336,013</u>

Notes to the Financial Statements

Highest paid director's remuneration

The highest paid director received the following remuneration

	2013	2012
	£	£
Salaries, fees and benefits in kind	170,584	157,644
Defined contribution pension costs	-	12,279
Accrued benefit under defined benefit pension scheme	<u>57,506</u>	<u>55,380</u>

Directors' emoluments and benefits were borne by other Group companies for 2 directors (2011/12 2 directors)

7 Financial expenses

<i>For the year ended 31 March</i>	2013	2012
	£m	£m
Interest on loans from fellow Group undertakings	<u>5.7</u>	<u>5.7</u>

Notes to the Financial Statements

8 Taxation

For the year ended 31 March

	2013	2012
	£m	£m
Current taxation		
Adjustments in respect of prior years	(0.2)	(0.5)
Total income tax credit for the year	(0.2)	(0.5)

Reconciliation of tax credit

For the year ended 31 March

	2013	2012
	£m	£m
Loss before tax	(0.2)	(0.5)
Loss before tax multiplied by standard rate of corporation tax in the UK of 24% (2011/12 26%)	(0.1)	(0.1)
Effects of		
Non-taxable and non deductible items	(0.4)	(1.2)
Prior period adjustment	(0.2)	(0.5)
Amount charged to the current tax computation for which no deferred tax was recognised	5.0	3.6
Utilisation of brought forward tax losses for which no deferred tax was recognised	(4.5)	(2.3)
Income tax credit for the year	(0.2)	(0.5)

Unrecognised deferred tax

Deferred tax assets have not been recognised in respect of the following items

	31 March 2013	31 March 2012
	£m	£m
Deductible temporary differences	52.6	53.8
Tax losses	8.2	12.0
	60.8	65.8

The items above do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits thereon.

Notes to the Financial Statements

Recognised deferred tax

Deferred tax assets have been recognised to the extent of the deferred tax liabilities

Movements were in respect of the following items

	Opening balance £m	Movement in profit or loss £m	Closing balance £m
<i>For the year ended 31 March 2013</i>			
Deferred tax assets			
Deferred government grants	0.8	0.5	1.3
Deferred tax liabilities			
Investment properties	(0.8)	(0.5)	(1.3)
Net deferred tax asset/(liability)	<u>-</u>	<u>-</u>	<u>-</u>
<i>For the year ended 31 March 2012</i>			
Deferred tax assets			
Deferred government grants	-	0.8	0.8
Deferred tax liabilities			
Investment properties	-	(0.8)	(0.8)
Net deferred tax asset/(liability)	<u>-</u>	<u>-</u>	<u>-</u>

The corporation tax rate was reduced from 26% to 24% on 1 April 2012 and from 24% to 23% on 1 April 2013. The Chancellor announced in his Autumn 2012 Statement that the UK corporation tax rate will reduce further to 21% by 2014. In his March 2013 Budget Statement he announced that it will fall to 20% on 1 April 2015.

The reduction in the rate to 23% (effective from 1 April 2013) was substantially enacted on 3 July 2012. Deferred tax balances at 31 March 2013 therefore were calculated using this corporation tax rate.

It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will reduce the Company's future current tax charge and deferred tax asset/liability accordingly.

Notes to the Financial Statements

9 Intangible assets

a) Intangible assets at 31 March 2013 comprised the following elements

	Note	Software costs £m	Assets under construction £m	Total £m
Cost or valuation				
At 1 April 2012		18.4	-	18.4
Additions		1.7	0.1	1.8
At 31 March 2013		20.1	0.1	20.2
Amortisation				
At 1 April 2012		9.4	-	9.4
Charge for the year	3	3.2	-	3.2
At 31 March 2013		12.6	-	12.6
Net book value at 31 March 2013		7.5	0.1	7.6
Net book value at 1 April 2012		9.0	-	9.0

b) Intangible assets at 31 March 2012 comprised the following elements

	Note	Software costs £m	Assets under construction £m	Total £m
Cost or valuation				
At 1 April 2011		30.8	7.8	38.6
Additions		0.8	-	0.8
Transfers (to)/from other group undertakings		(14.4)	-	(14.4)
Transfers (to)/from other asset classes		1.2	(7.8)	(6.6)
At 31 March 2012		18.4	-	18.4
Amortisation				
At 1 April 2011		8.4	-	8.4
Charge for the year	3	1.5	-	1.5
Transfers (to)/from fellow group undertakings		(0.5)	-	(0.5)
At 31 March 2012		9.4	-	9.4

Notes to the Financial Statements

10 Property, plant and equipment

a) Property, plant and equipment at 31 March 2013 comprised the following elements

	Note	Infrastructure and other property £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 April 2012		223.6	181.4	12.9	417.9
Additions		2.6	10.4	0.2	13.2
Transfers (to)/from other asset classes		1.9	0.6	(2.5)	-
Disposals		-	(14.0)	-	(14.0)
At 31 March 2013		228.1	178.4	10.6	417.1
Depreciation					
At 1 April 2012		77.3	82.4	-	159.7
Charge for the year	3	9.8	28.0	-	37.8
Disposals		-	(14.0)	-	(14.0)
At 31 March 2013		87.1	96.4	-	183.5
Net book value at 31 March 2013		141.0	82.0	10.6	233.6
Net book value at 31 March 2012		146.3	99.0	12.9	258.2

b) Property, plant and equipment at 31 March 2012 comprised the following elements

	Note	Infrastructure and other property £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 April 2011		254.3	182.0	13.3	449.6
Additions		5.7	12.0	1.2	18.9
Transfers (to)/from other group undertakings		(33.3)	(12.4)	-	(45.7)
Transfers (to)/from other asset classes		1.5	6.7	(1.6)	6.6
Disposals		(4.6)	(6.9)	-	(11.5)
At 31 March 2012		223.6	181.4	12.9	417.9
Depreciation					
At 1 April 2011		73.3	74.0	-	147.3
Charge for the year	3	9.9	16.0	-	25.9
Transfers (to)/from fellow group undertakings		(1.3)	(0.7)	-	(2.0)
Disposals		(4.6)	(6.9)	-	(11.5)
At 31 March 2012		77.3	82.4	-	159.7

Notes to the Financial Statements

11 Investment property

	Note	2013 £m	2012 £m
Valuation			
Fair value at 1 April		6.0	1.4
Change in fair value	4	2.0	4.6
Fair value at 31 March		<u>8.0</u>	<u>6.0</u>

The fair value of the Company's investment properties at 31 March 2013 has been arrived at on the basis of a valuation carried out at that date by DTZ, a property valuation company not connected with the Company, and by chartered surveyors working for Transport for London. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties.

Properties are valued in accordance with the Valuation Standards (sixth edition) published by the Royal Institution of Chartered Surveyors. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

The Company's investment properties are let on a tenant repairing basis. The Company's maintenance obligations are limited to common areas and vacant property units.

12 Investment in subsidiaries

	2013 £m	2012 £m
Investment in subsidiaries at cost		
Carrying value of investment brought forward	-	-
Carrying value of investment carried forward	<u>-</u>	<u>-</u>

Subsidiary	Percentage of share capital held	Class of share held	Nature of business	Country of incorporation
London Dial-a-Ride Limited	100%	2 ordinary £1 shares	dormant	England

Notes to the Financial Statements

13 Inventories

	2013	2012
	£m	£m
Raw materials and consumables	0.1	0.1

There is no material difference between the carrying value of inventories and their net realisable value

Inventories consist of spares and general parts for maintenance of bus communications equipment

14 Trade and other receivables

	2013	2012
	£m	£m
Current		
Trade receivables	5.6	4.4
Amounts due from fellow Group undertakings	75.4	66.1
Other tax and social security	1.9	3.9
Prepayments and accrued income	3.9	5.0
	<u>86.8</u>	<u>79.4</u>
Non-current		
Prepayments and accrued income	-	0.2
	<u>-</u>	<u>0.2</u>

15 Cash and cash equivalents

	2013	2012
	£m	£m
Cash at bank	-	0.5

Notes to the Financial Statements

16 Trade and other payables

	2013	2012
	£m	£m
Current		
Trade payables	4.3	5.7
Accruals and other payables	56.6	61.8
Project and capital works accruals	1.3	-
Amounts due to fellow Group undertakings	7.9	4.8
Other deferred income	2.6	8.0
Salaries and wages	1.9	2.0
Other tax and social security creditors	0.1	0.1
	<u>74.7</u>	<u>82.4</u>
Non-current		
Other deferred income	<u>4.5</u>	<u>4.3</u>

17 Borrowings

	2013	2012
	£m	£m
Non-current		
Amounts due to fellow Group undertakings	<u>128.5</u>	<u>128.5</u>

Amounts due to fellow Group undertakings

All borrowings due to fellow Group undertakings are repayable on demand with a two year notice period

No notice has been given on these loans as at the date of signing of these accounts

The weighted average interest rates on borrowings outstanding at the year end were as follows

	2013	2012
	%	%
Weighted average interest rate	4.40%	4.40%

Notes to the Financial Statements

18 Provisions

	2013 £m	2012 £m
Current		
Provisions	<u>0.1</u>	<u>3.8</u>
Non-current		
Provisions	<u>0.1</u>	<u>0.2</u>

	At 1 April 2012 £m	Utilised in the year £m	Charge for the year £m	Reversed during the year £m	At 31 March 2013 £m
Movement on provisions					
Contractual provisions	1.2	(1.0)	-	-	0.2
Other provisions	2.8	(0.3)	-	(2.5)	-
	<u>4.0</u>	<u>(1.3)</u>	<u>-</u>	<u>(2.5)</u>	<u>0.2</u>

	At 1 April 2011 £m	Utilised in the year £m	Charge for the year £m	Reversed during the year £m	At 31 March 2012 £m
Movement on provisions					
Contractual provisions	1.6	-	-	(0.4)	1.2
Other provisions	0.9	(0.6)	2.7	(0.2)	2.8
	<u>2.5</u>	<u>(0.6)</u>	<u>2.7</u>	<u>(0.6)</u>	<u>4.0</u>

Contractual provision

Contractual provisions relate to property dilapidations and claims from third parties. These provisions are expected to be settled over the next five years.

Notes to the Financial Statements

19 Deferred grants

		2013	2012
	Note	£m	£m
Deferred grant at start of year		133.2	153.6
Capital grant received during the year	2	13.1	49.6
Third party contributions and other capital grants	2	0.9	0.7
Transfers to fellow Group undertakings		-	(57.6)
Released to the income statement:			
To meet the depreciation charge	3	(20.0)	(13.1)
Deferred grant at end of year		127.2	133.2

Notes to the Financial Statements

20 Pensions

The Company offers retirement plans to its employees

Public Sector Section of the TfL Pension Fund

During the year, the majority of the Company's staff were members of the Public Sector Section of the TfL Pension Fund, which is a final salary scheme established under trust. Benefits are based on employees' length of service and final pensionable pay. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of Transport for London. Under the rules of the Fund, its 18 trustee directors are nominated in equal numbers by Transport for London and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund's Actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2012 by the Actuary, a partner of consulting actuaries Towers Watson (formerly Watson Wyatt), using the projected unit method.

A revised Schedule of Contributions was agreed between the Trustee and the employers following the 2012 formal funding valuation of the TfL Pension Fund.

For the Public Sector Section, employer's contributions for the period from 1 April 2013 until 31 March 2020 will continue to be 31.0%, with an additional lump sum of £37.8m increased in line with RPI, payable by 31 March 2018.

It is not possible to identify the Company's share of the underlying assets and defined benefit obligation of the Public Sector Section of the TfL Pension Fund. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. Thus, in accordance with IAS 19, the Company accounts for contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The Company's contributions to the Fund of £6.0 million (2011/12 £6.4 million) have been charged to the Income Statement.

A valuation of the Public Sector Section of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2013. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the sections' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The liabilities for the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2012. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2011 projections with a long term improvement rate of 1.0 per cent per annum.

The IAS 19 deficit on the Public Sector Section of the TfL Pension Fund at 31 March 2013 was £2,629.7 million (31 March 2012 £2,134.3 million). As stated above, it is not possible to identify the Company's particular share of the deficit. Further details of the Public Sector Section position can be found in the Statement of Accounts of Transport for London.

IAS 19 specifies how key assumptions should be derived and applied. These assumptions are often different to the assumptions adopted by the pension scheme actuary and trustees in determining the funding position of pension schemes.

Notes to the Financial Statements

The IAS 19 valuation is broadly based on the Section's assets being valued at market value at year end with the defined benefit obligation being discounted at the rate of return on high quality corporate bonds of equivalent term to the defined benefit obligation

The fair value of the Fund's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Fund's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as shown below. Also shown are the expected long term rates of return which are the best estimates chosen from a range of possible assumptions and, due to the time-scale covered, may not necessarily be borne out in practice

The figures include the assets and defined benefit obligation of the entire Public Sector Section of the TfL Pension Fund, and include members who are employed by, and whose contributions are made by Transport for London and its subsidiaries. This is because, as stated above, it is not possible to identify the Company's particular share. Further details of the Public Sector Section's position can be found in the Statement of Accounts of Transport for London

Actuarial assumptions at 31 March

	2013	2012
	%	%
Inflation	3.35%	3.10%
Rate of increase in salaries	3.85%	3.85%
Rate of increase in pensions in payment and deferred pensions	3.35%	3.10%
Discount rate	4.35%	4.75%
Investment return	5.15%	5.90%

Fair value of Section assets and liabilities at 31 March

	2013		2012	
	Expected return	Value at 31 March 2013	Expected return	Value at 31 March 2012
	%	£m	%	£m
Equities	5.95%	4,537.6	6.35%	3,886.9
Bonds	3.35%	1,992.0	3.75%	1,841.3
Cash, property and other assets	2.45%	6.7	2.80%	29.4
Total market value of assets		6,536.3		5,757.6
Actuarial value of Section liabilities		(9,166.0)		(7,891.9)
Closing Section net obligation		(2,629.7)		(2,134.3)

Notes to the Financial Statements

21 Share capital

	2013	2012
	£m	£m
Share capital issued and fully paid		
1,000,000 ordinary shares of £1 each	1.0	1.0

22 Financial instruments

Financial risk management

The Company's financial risk management operations are ultimately carried out by the Board of Directors

The Company's financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables and borrowings. The Company finances operations from these financial instruments. The Company does not undertake speculative treasury transactions.

The Company is exposed to a number of financial risks in the normal course of its business operations, the key of which are laid out in the paragraphs below.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations. Credit risk arises from deposits with banks and financial institutions and from the Company's customers and suppliers.

The Company follows the TfL Finance Manual guidelines with respect to assessing the credit worthiness of potential customers. These guidelines include processes such as obtaining approval for credit limits over a set amount, performing credit checks and obtaining additional security when required.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk is low as Transport for London provides financial support to the Company.

In accordance with the Local Government Act 2003 Transport for London sets an affordable borrowing limit. As long as the affordable borrowing limit is not exceeded Transport for London is able to borrow from the Public Works Loan Board and raise debt on capital markets. There is no significant risk that Transport for London would be unable to raise finance to meet the Transport for London Group financial commitments.

Market risk

The Company is exposed to market risk in respect of interest rate risk only. The Company is not exposed to any material price or currency risk.

Interest rate risk

The Company does not have any exposure to interest rate risk on its financial liabilities as the only interest bearing financial instruments are fixed interest loans from Transport for London.

The Company is exposed to interest rate risk on cash balances. This risk is managed by TfL, the Company's ultimate parent.

Notes to the Financial Statements

Sensitivity analysis

Fair value sensitivity analysis for fixed interest instruments

Changes in the market interest rates of financial instruments with fixed interest rates only affect income if these are measured at their fair value. All the Company's financial instruments with fixed rates of interest are accounted for at amortised cost and are not subject to interest rate risk as defined in IFRS 7 Financial Instruments Disclosures.

Contractual maturity of financial liabilities

Borrowings from Transport for London are repayable on demand with a two year notice period. Interest on borrowings from TfL is paid annually. All other financial instruments are due within one year.

Fair value of financial instruments

The fair value of the Company's financial instruments is not materially different to their carrying value.

Capital management

The capital structure of the Company consists entirely of shareholders' equity and borrowings from the Company's ultimate parent, Transport for London. The Company has no external borrowings and no externally imposed capital requirements. It is not anticipated that the Company will require external borrowings for the foreseeable future as it is provided with grants and borrowings from its ultimate parent, Transport for London, to fund operations and capital projects.

The Company does not have a credit rating but Transport for London, the Company's ultimate parent who provides financial support to the Company, has a credit rating of AA with Fitch, AA+ with Standard & Poor's and Aa2 with Moody's.

23 Operating lease commitments

Operating lease commitments - The Company as lessee in third party contracts

The Company is committed to the following future minimum lease payments under non-cancellable operating leases with third parties. All leases have been entered into on commercial terms.

	Land and property £m	Total £m
At 31 March 2013		
Amounts falling due in less than one year	0.6	0.6
Amounts falling due between 1 and 2 years	0.6	0.6
Amounts falling due between 2 and 5 years	1.5	1.5
Amounts falling due in more than 5 years	32.2	32.2
	34.9	34.9
At 31 March 2012		
Amounts falling due in less than one year	0.8	0.8
Amounts falling due between 1 and 2 years	0.7	0.7
Amounts falling due between 2 and 5 years	1.7	1.7
Amounts falling due in more than 5 years	34.2	34.2
	37.4	37.4

Notes to the Financial Statements

Operating lease commitments - The Company as lessee in related party contracts

The Company is committed to the following future minimum lease payments under non-cancellable operating leases with fellow undertakings within the Transport for London Group. All leases have been entered into on commercial terms

	Motor vehicles £m	Total £m
At 31 March 2013		
Amounts falling due in less than one year	0.8	0.8
Amounts falling due between 1 and 2 years	0.4	0.4
	<u>1.2</u>	<u>1.2</u>
At 31 March 2012		
Amounts falling due in less than one year	0.7	0.7
Amounts falling due between 1 and 2 years	0.5	0.5
Amounts falling due between 2 and 5 years	0.2	0.2
	<u>1.4</u>	<u>1.4</u>

Operating lease commitments - The Company as lessor in third party contracts

The Company has contracted with third party customers for the following future minimum lease receipts. All leases have been entered into on commercial terms

	Land and property £m	Total £m
At 31 March 2013		
Amounts falling due in less than one year	2.4	2.4
Amounts falling due between 1 and 2 years	2.4	2.4
Amounts falling due between 2 and 5 years	6.3	6.3
Amounts falling due in more than 5 years	40.5	40.5
	<u>51.6</u>	<u>51.6</u>
At 31 March 2012		
Amounts falling due in less than one year	2.4	2.4
Amounts falling due between 1 and 2 years	2.3	2.3
Amounts falling due between 2 and 5 years	6.5	6.5
Amounts falling due in more than 5 years	42.1	42.1
	<u>53.3</u>	<u>53.3</u>

Notes to the Financial Statements

Operating lease commitments – The Company as lessor in related party contracts

The Company has contracted with fellow undertakings within the Transport for London Group for the following future minimum lease receipts. All leases have been entered into on commercial terms.

	Motor vehicles £m	Total £m
At 31 March 2013		
Amounts falling due in less than one year	1.2	1.2
Amounts falling due between 1 and 2 years	1.1	1.1
Amounts falling due between 2 and 5 years	3.4	3.4
Amounts falling due in more than 5 years	3.3	3.3
	9.0	9.0
At 31 March 2012		
Amounts falling due in less than one year	1.4	1.4
Amounts falling due between 1 and 2 years	4.2	4.2
Amounts falling due in more than 5 years	0.3	0.3
	5.9	5.9

24 Capital and other financial commitments

a) At 31 March 2013, the Company had capital commitments of £212.1m which are contracted for but not provided for in the financial statements (2012 £13.5m)

b) At 31 March 2013, the Company had no other financial commitments which are contracted for but not provided for in the financial statements (2012 £nil)

25 Contingent liabilities

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the financial performance of the Company. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made.

The impact of these contingent liabilities on the Company's financial performance, liquidity or financial position is not considered to be material.

Notes to the Financial Statements

26 Related party transactions

During the year none of the Company's directors, key management personnel or parties related to them, have undertaken any material transactions with the Company (2011/12 none) Details of directors' emoluments can be found in note 6

The Company is a wholly owned subsidiary of Transport for London ("TfL") TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 ("GLA Act 1999") It is a functional body of the Greater London Authority ("GLA") and reports to the Mayor of London TfL is classified as a government entity in accordance with IAS 24 *Related party transactions* ("IAS 24") and the Company is therefore also classified as a government entity in accordance with IAS 24

The GLA and its other functional bodies, and all other subsidiaries of TfL, are considered to be related parties of the Company

The Company has traded with the following related parties that are classified as government entities

- Receipt of funding from Transport for London in the form of grants and loans (see notes 2 and 17),
- Interest accrued on loans from Transport for London as disclosed in note 7

The Company has completed the following further transactions that are collectively significant transactions with related parties

- Recharge for various services and provision of equipment by Transport Trading Limited ("TTL"), TfL and other TfL subsidiaries

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related

27 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Transport Trading Limited, a company controlled by Transport for London which is the ultimate parent undertaking

The largest group in which the results of the Company are consolidated is that headed by TfL, a statutory corporation The smallest group in which they are consolidated is that headed by Transport Trading Limited, a company incorporated in England and Wales

The Board of London Bus Services Limited has been given assurances of financial support by Transport for London

Copies of the consolidated accounts for Transport for London are available from Windsor House, 42-50 Victoria Street, London, SW1H 0TL

28 Events occurring after the reporting date

At the date on which the financial statements were approved by the Board of Directors, there had been no event that had occurred since 31 March 2013 that would have a material impact on these financial statements